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Scott N. Folwarkow
Vice President
State Government Affairs

October 3, 2022

Federal Express No. 7701-0296-1372
Email: David.Hochschild@energy.ca.gov

Chairman David Hochschild
California Energy Commission
715 P Street
Sacramento, CA 95814

Dear Chairman Hochschild:

As demanded and with one business day to respond, Valero is providing the following response to the California Energy Commission (the "Commission") letter of September 30, 2022 letter.

As the Commission knows, and as countless investigations have demonstrated, market drivers of supply and demand, together with government-imposed costs and specifications, determine market price. Ironically, on the same day we received the Commission's letter, a federal judge in a 103-page reasoned order, following review of thousands of pages of documents and hours of depositions and discovery, yet again threw out another case alleging price conspiracies by the fuel industry finding no basis for the allegations.

Valero does not publicly disclose extensive details that could be competitive regarding our maintenance or supply strategies due to antitrust concerns. However, in light of the seriousness of the implications of your letter, we will provide the following general information. We do have planned maintenance activity underway at one of our California refineries. This maintenance is required to keep the refinery running safely and properly and to meet the regulatory expectations of the state. We have made appropriate arrangements to source supply and/or intermediates to keep our refinery at as close to full rate as possible. We also either built inventory or arranged for additional supply to assure we meet our contractual obligations to our customers. Valero does this when we have the opportunity to plan for a significant outage. This maintenance turnaround was handled no differently.

As to why inventories may be low, we believe it is because post-COVID demand is growing and supply is limited. We have been endeavoring to keep our refineries at full production and no one has produced more low carbon renewable fuel for the California market than Valero. Nevertheless, the market has been very tight. With a very short supply market, inventories are pulled down to satisfy the demand. In fact, the Commission would not want to see refiners holding inventories in a tight market. Also, as noted below, the closure of California refineries has necessarily eliminated their working inventories which will lower overall state inventories levels.

As to separation between California prices and the prices in the rest of the United States, we can offer the following information. For Valero, California is the most expensive operating environment in the country and a very hostile regulatory environment for refining. California policy makers have knowingly adopted policies with the expressed intent of eliminating the refinery sector. California requires refiners to pay very high carbon cap and trade fees and burdened gasoline with cost of the low carbon fuel standards. With the backdrop of these policies, not surprisingly, California has seen refineries completely close or shut down major units. When you shut down refinery operations, you limit the resilience of the supply chain.

From the perspective of a refiner and fuel supplier, California is the most challenging market to serve in the United States for several additional reasons. California regulators have mandated a unique blend of gasoline that is not readily available outside of the West Coast. California is largely isolated from fuel markets of the central and eastern United States. California has imposed some the most aggressive, and thus expensive and limiting, environmental regulatory requirements in the world. California polices have made it difficult to increase refining capacity and have prevented supply projects to lower operating costs of refineries.

We believe the Commission experts understand that California cannot mandate a unique fuel that is not readily unavailable outside of the West Coast and then burden or eliminate California refining capacity and expect to have robust fuel supplies. Adding further costs, in the form of new taxes or regulatory constraints, will only further strain the fuel market and adversely impact refiners and ultimately those costs will pass to California consumers.

If you need further information or have additional concerns, please advise.

Sincerely,

Scott Folwarkow